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ABSTRACT

This paper looks at the three employee benefit items that are most costly for employers--retirement programs, Social Security/Medicare contributions, and major medical insurance coverage--to estimate the costs of these benefits in school districts in the 15 states of the Southern Regional Education Board (Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia). Three tables list, for each of the 15 states: (1) the status of Social Security participation, employer and teacher retirement contributions, normal retirement provisions, the retirement benefit formula, and the availability of early retirement; (2) coverage for major medical insurance through a state or district plan, annual employer contribution, and estimated percent of average teacher salary; and (3) employer contributions for selected employee benefits as a percent of salary, including retirement, Social Security/Medicare, major medical insurance, and total. The paper concludes that the cost of these three benefits adds from 13 percent to nearly 31 percent to salary allocations. Retirement and Social Security/Medicare costs range from about 9 percent to more than 24 percent of the average teacher salary, while major medical insurance contributions range from about 3 percent to 15 percent. (JDD)

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ED 378 165

The Cost of Teacher Benefits in the SREB States

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The Southern Regional Education Board is the nation's first interstate compact for the advancement of education. For 45 years, SREB has been identifying and directing attention to key issues in education; collecting, compiling, and analyzing comparable educational data; conducting studies on educational concerns; and initiating discussions directed to state and institutional long-range planning, actions, and policy proposals affecting education. The fifteen SREB states are: Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia, and West Virginia.

School districts in SREB states are paying in excess of $26 billion annually in salaries to the region's 894,000 teachers, but compensating teachers goes beyond salary alone. Employee benefits–retirement programs, social security, major medical insurance plans–add to teacher earnings in ways that are not always tangible. From a budgeting standpoint, these programs add up to 30 percent, and even more in some cases, to actual salary amounts. Additional benefits offered by states and school districts (for example, dental and optical coverage, and life insurance) can increase the total compensation even more.

Determining the total cost of employee benefits would be difficult at best–the region's teachers are employed by more than 3,300 school districts that often add supplemental benefits to those coordinated by the state or pick up part of the cost of the employee share of some benefits. State-provided programs are limited and benefit packages are determined at the district level in some SREB states. Unfortunately, few surveys have been done to ascertain the cost of the benefits offered by local school districts.

Because of the variations in benefit offerings within states, this paper looks at the three most costly items for employers–*retirement programs, Social Security/Medicare contributions*, and *major medical insurance coverage*–to estimate the major benefit costs in SREB states.

State Retirement Systems

Teachers in all SREB states participate in state-sponsored retirement systems. Eight states (Alabama, Arkansas, Georgia, Kentucky, Louisiana, Oklahoma, Texas, and West Virginia) maintain active "teacher only" retirement systems. (Florida's teacher retirement system closed to new members in 1970. About 3,000 teachers remain in that system–roughly 3 percent of the state's teaching force.) Teachers in six of the remaining seven states (Florida, Maryland, Mississippi, South Carolina, Tennessee, and Virginia) join state and local government employees in the state retirement system. North Carolina teachers and state employees participate in one system, while local government employees take part in another.

Employer contributions set by retirement systems currently range from 5 percent of a teacher's salary in Alabama to 17.27 percent in Florida. Teachers contribute from 4.5 percent of their salary in West Virginia's new Defined Contribution Retirement System (opened in 1991) to nearly 10 percent in Kentucky's Teacher Retirement System. While the teacher share of retirement contributions in Virginia is 5 percent, 1990 appropriation language permitted districts to pick up the teacher share in lieu of giving a salary increase. Currently, all but 18 of the state's 133 districts pay the teachers' 5 percent share.

Florida's state retirement system is "non-contributory," that is, teachers make no payments to the system. Maryland's state pension system (opened in 1980), in essence, is also non-contributory for teachers; employees pay only on their annual income in excess of $57,600. Teachers in Arkansas, too, are not required to pay into their system, though they can elect to contribute.

Retirement programs generally have age and years of service requirements retirees must meet in order to receive "full benefits." These are usually either expressed as a combination of a minimum age with a minimum number of years of service (for example, age 60 with 10 years of service) or simply a minimum number of years of service (for example, any age with 25 years of service).

Table 1
RETIREMENT BENEFITS

		Social Security Participation	Retirement Contributions Employer	Teacher
Alabama		Yes	5%	5%
Arkansas		Yes	12%	0 to 6%
Florida *		Yes	17.27%	0
Georgia		Some	11.81%	6%
Kentucky		No	9.86%	9.86%
Louisiana		No	16.2%	8%
Maryland **	Retirement System	Yes	16.44%	Up to 5%
	Pension System		16.44%	5% on income above $57,600
Mississippi		Yes	9.75%	7.25%
North Carolina		Yes	10.96%	6%
Oklahoma		Most	7.5%	6% & 9% Split §

SOURCES: Wisconsin Retirement Research Committee, *1992 Comparative Study of Major Public Employee Retirement Systems* (Staff Report No. 80); Unpublished data; State retirement reports.

Normal Retirement Provisions	Retirement Benefit Formula ††	Early Retirement (with Reduced Benefits)
Age 60 with 10 Years Service Any Age with 25 Years Service	2.0125% X Years X FAS	No
Age 60 with 10 Years Service Any Age with 30 Years Service	1.85% X Years X FAS	Yes
Age 62 with 10 Years Service Any Age with 30 Years Service	1.6% X Years X FAS Up To 1.68% X Years X FAS	Yes
Age 60 with 10 Years Service Any Age with 30 Years Service	2% X Years X FAS (Maximuim 40 Years Service)	Yes
Age 60 with 5 Years Service Any Age with 27 Years Service	2.5% X Years X FAS	Yes
Age 65 with 20 Years Service Age 55 with 25 Years Service Any Age with 30 Years Service	2.5% X Years X FAS	Yes
Age 60 or 30 Years Service	(FAS/55) X Years	Yes
Age 62 with 5 Years Service Age 63 with 4 Years Service Age 64 with 3 Years Service Age 65 with 2 Years Service Any Age with 30 Years Service	(0.8% X Years X $21,600 FAS) + (1.5% X Years X Excess FAS)	Yes
Age 60 with 4 Years Service Any Age with 25 Years Service	(1.875% X FAS X First 25 Years) + (2% X FAS X Years over 25)	Yes
Age 65 with 5 Years Service Age 60 with 25 Years Service Any Age with 30 Years Service	1.71% X Years X FAS	Yes
Age 62 with 10 Years Service Age + Years Service = 80	2% X Years X FAS	Yes

* In Florida, information is based on the State Retirement System in which all teachers hired after 1970 participate.

** In Maryland, the State Retirement System closed to new members in 1980. Teachers hired after that time participate in the State Pension System.

§ In Oklahoma, teachers contribute 6 percent on the first $25,000 of their salary and may elect to contribute 9 percent on the balance of their salary up to $40,000.

†† In most states, a percentage multiplier is applied to the product of the years of service (Years) and the Final Average Salary (FAS). Methods of calculating FAS vary by state.

RETIREMENT BENEFITS (continued)

		Social Security Participation	Retirement Contributions Employer	Teacher
South Carolina		Yes	9.62%	6%
Tennessee		Yes	8.7%	5%
Texas		Some	7.31%	6.4%
Virginia		Yes	7.96% or 12.96% §§	0 or 5% §§
West Virginia †	Benefit Plan	Yes	6%	6%
	Contribution System		7.5%	4.5%

SOURCES: Wisconsin Retirement Research Committee, *1992 Comparative Study of Major Public Employee Retirement Systems* (Staff Report No. 80); Unpublished data; State retirement reports.

A person's annual retirement benefit is determined by a formula that involves the years of service and a percentage of the final average salary. This percentage, referred to as the "multiplier," ranges in SREB states from 0.8 percent in the one part of Maryland's formula to 2.5 percent in Kentucky and Louisiana. The final average salary (FAS) is the average of the employee's highest annual salary of certain years. The method used to determine FAS varies by state. Alabama, for example, averages the three years with the highest annual salary of the last 10 years of employment. Florida averages the five years with the highest income earned during a person's career. In Maryland, the three highest consecutive years of income are averaged.

Social Security and Medicare

Tied closely to retirement benefits is participation in Social Security and Medicare. Current employer contribution rates are 6.2 percent of salary for Social Security and 1.45 percent for Medicare, with an identical matching amount from the employee. While Medicare contributions are required, Social Security coverage is not offered in all states.

Districts in Kentucky and Louisiana and most of those in Texas do not participate in the Social Security system. Also, a small number of Oklahoma districts do not take part in Social Security. In Georgia, some districts participate, others do not, and, in some, only certain classes of employees take part. In general, the

Normal Retirement Provisions	Retirement Benefit Formula ††	Early Retirement (with Reduced Benefits)
Age 65 with 5 Years Service Any Age with 30 Years Service	1.82% X Years X FAS	Yes
Age 60 with 5 Years Service Any Age with 30 Years Service	(1.5% X Years X $21,600 FAS) + (0.25% X Years X Excess FAS)	Yes
Age 65 with 5 Years Service Age 60 with 20 Years Service Age 55 with 30 Years Service	2% X Years X FAS	Yes
Age 65 with 5 Years Service Age 55 with 30 Years Service	(1.5% X Years X $13,200 FAS) + (1.65% X Years X Excess FAS)	Yes
Age 65 with 5 Years Service Age 55 with 30 Years Service Any Age with 35 Years Service	2% X Years X FAS	No
12 Years Service	Benefits Based on Accrual	Does Not Apply

§§ In Virginia, the state retirement system requires an employer contribution of 7.96 percent. Most districts, however, also contribute the teacher's 5 percent share.

† In West Virginia, the Defined Benefit Retirement Plan closed to new members in 1991. Teachers hired after that time participate in the Defined Contribution Retirement System.

†† In most states, a percentage multiplier is applied to the product of the years of service (Year) and the Final Average Salary (FAS). Methods of calculating FAS vary by state.

"multiplier" used to calculate benefits in the state retirement programs are generally higher in those states not involved in Social Security, presumably to reflect this lack of coverage. (Wisconsin Retirement Research Committee, 1992)

Contributions for Major Medical Insurance

The provision of major medical insurance has become increasingly important as health care costs continue to spiral. Seven SREB states (Alabama, Arkansas, Georgia, Kentucky, North Carolina, South Carolina, and West Virginia) provide health insurance coverage for teachers through statewide health plans. Annual employer contribution rates set in these states range from $1,188 per year in Arkansas to over $4,500 in West Virginia. In Georgia, the state finances 75 percent of the cost of its health plan. For teachers, the employer contribution is equal to 8.66 percent of their state-based salary, and averages $2,362 per year. Additionally, school boards in 43 of the state's more than 180 districts pay at least a part of the teacher contribution.

State health plans are also available in Louisiana, Mississippi, Oklahoma, Tennessee, and Virginia, though districts can provide their own coverage. Where this option is available, participation in the state health plan varies. Most teachers in Oklahoma,

Table 2
MAJOR MEDICAL INSURANCE

	Coverage Provided Through	Annual Employer Contributions	Estimated Percent of Average Teacher Salary *
Alabama	State Plan	$2,472	9%
Arkansas	State Plan	$1,188	4%
Florida	District Plans	$1,807 (Average) **	6%
Georgia	State Plan	$2,362 (Average) †	8% †
Kentucky	State Plan	$1,904 to $2,027 (depending upon plan)	6%
Louisiana	State or District Plans	$901 (Single) $1,974 (Family)	4% 8%
Maryland	District Plans	Not Available	Not Available
Mississippi	State or District Plans	Not Available	Not Available
North Carolina	State Plan	$1,740	6%
Oklahoma	State or District Plans	$576 (Minimum for State Health Plan) ††	Not Available
South Carolina	State Plan	$1,617 (Single) $2,205 (Family)	6% 8%
Tennessee	State or District Plans	$701 (Single) $1,751 (Family)	2% 6%
Texas	District Plans	$1,177 (Average) §	4%
Virginia	State or District Plans	$1,849 (Average) §§	6%
West Virginia	State Plan	$2,124 (Single) $4,572 (Family)	7% 15%

* Calculated using estimated 1992-93 salaries (National Education Association) and figures available for health insurance. Numbers are rounded to the nearest whole percent.

** In Florida, employer contributions vary by district, and in 1992-93 generally ranged from $900 to $4,004. One district reported a maximum contribution of $4,416 depending upon years of service.

† Amount represents the average state payment for the health plan in Georgia. Additionally, 43 of the state's districts contribute at least part of the teacher share.

†† In Oklahoma, most districts participate in the state plan, which requires a district contribution of at least one-third of the employee only premium (currently $1,728 per year).

§ In Texas, district contributions ranged from 0 to $3,076 for local plans in 1992-93.

§§ In Virginia, employer contributions vary by district, and in 1992-93 ranged from $720 to $6,950. The state school finance formula is based on $1,849 per teacher.

for example, reportedly participate in the state system. In Louisiana, 40 of the state's 66 districts participate in the state plan and in Virginia, only about 10,000 school employees in 29 of 133 districts are covered by the state plan. Employer contributions are made toward both single (employee only) and family coverage in Louisiana and Tennessee whether the district participates in the state program or has a plan of its own. Districts in Oklahoma are required to pay at least one-third of the single premium for only those teachers participating in the state health plan. Information is not available on additional amounts that districts pay or on contributions to local health plans. In Virginia, while district contributions vary from $720 to $6,950; the state school finance formula assumes an average of $1,849 per teacher.

In Mississippi, districts can participate in a state plan or in locally developed options. Through 1992-93, the state appropriated $5 million to assist in the premium payment of only those teachers participating in the state system. An additional $23 million appropriation in 1993-94 is funding the first of a two-year plan to eliminate district and teacher contributions for employee only coverage. The anticipated $50 million to $60 million needed in 1995 will allow the state to pay 100 percent of the single premium. Family coverage will be available at a cost to the teacher. Currently, no estimates are available on the state cost per teacher for this program.

Teachers in Florida, Maryland, and Texas do not take part in state health plans. Districts in those states secure coverage for their employees. Florida's 67 school districts offer a total of 128 insurance plans. School board contributions reach as high as $4,416 per teacher; in two-thirds of the plans, the range is from $900 per year to $1,900. The average annual school board payment is about $1,807. In Maryland, statewide figures are not available, although two of the state's 24 school districts take different approaches toward offering insurance coverage. In one district, the school board pays between $1,591 per year for employee only coverage and $4,313 for family coverage–70 percent of the total premium. In the other district, premiums paid on behalf of teachers vary depending on the plan selected, the teacher's years of service, and the type of coverage (single or family). Board contributions in this district range from $1,242 to $5,948 annually.

According to a survey conducted by the Texas school boards and school administrators associations, district contributions for local health plans range from $180 per year to $3,076, and average $1,177 annually. (The 767 districts responding to the survey employ 90 percent of all school employees.) About 31 districts make no payments toward teacher health coverage.

How Much Do Benefits Add to the Cost of Salaries?

What do benefits cost as a percent of teacher salaries? Florida is one state that has been able to estimate the total cost of employee benefits through the state data management system. District annual financial reports reflect local school board payments averaging 32 percent to 33 percent of the average teacher salary for employee benefits–nearly 25 percent for mandated programs (retirement and Social Security/Medicare) and about 8 percent for optional benefits provided by districts, including health insurance. While district contributions for medical plans actually range from $900 to more than $4,000 per year, a survey conducted by the Florida School Boards Association indicated the average district contribution is $1,807, which is close to 6 percent of the average teacher salary. The remaining 1 percent to 2 percent covers other benefits offered by districts.

Oklahoma, too, can estimate employer benefit costs. In addition to employer contributions for retirement and Social Security/Medicare (7.5 percent and 7.65 percent, respectively), school districts report offering benefits which add nearly 7 percent to the average teacher salary. These programs include medical insurance; sickness, accident, and life insurance; and any employee share of retirement costs picked up by the district. While the cost of each type of benefit is unavailable, state officials estimate medical insurance represents the major part.

Table 3
EMPLOYER CONTRIBUTIONS
FOR SELECTED EMPLOYEE BENEFITS AS A PERCENT OF SALARY

	Retirement	Social Security/ Medicare	Estimated Major Medical *	Estimated Percent of Salary for Selected Benefits
Alabama	5%	7.65%	9%	22%
Arkansas	12%	7.65%	4%	24%
Florida	17.27%	7.65%	6% **	31%
Georgia	11.81%	1.45% (Medicare Only) or 7.65%	8% †	22% to 28%
Kentucky	9.86%	1.45% (Medicare Only)	6%	17%
Louisiana	16.2%	1.45% (Medicare Only)	4% to 8%	21% to 25%
Maryland	16.44%	7.65%	Not Available	Not Available
Mississippi	9.75%	7.65%	Not Available	Not Available
North Carolina	10.96%	7.65%	6%	25%
Oklahoma	7.5%	1.45% (Medicare Only) or 7.65%	Not Available	Not Available
South Carolina	9.62%	7.65%	6% to 8%	23% to 25%
Tennessee	8.7%	7.65%	2% to 6%	19% to 22%
Texas	7.31%	1.45% (Medicare Only) or 7.65%	4% **	13% to19%
Virginia	7.96% or 12.96% ††	7.65%	6% **	21% to 26%
West Virginia	6% or 7.5%	7.65%	7% to 15%	21% to 30%

* Based on information available on employer contributions and the estimated average teacher salary for 1992-93. Numbers are rounded to the nearest percent.

** Because contributions vary by district in Florida, Texas, and Virginia, an average expenditure figure is used.

† In Georgia, the percentage is based on the state contribution averaging $2,362, which is 8.66 percent of the state-based salary. It should be noted that in 43 districts, school boards pay at least part of the teacher share of the medical insurance program.

†† In Virginia, a number of school districts pay the teacher share of the retirement contribution.

It is fairly easy to determine the added employer cost of retirement and Social Security/Medicare since those contributions are calculated as a percent of salary. Considered together, in the region those costs range from under 9 percent of the average salary in Texas for those teachers with no Social Security coverage to more than 24 percent in Florida.

Major medical insurance contributions, on the other hand, are not generally expressed as a percent of salary since the premium costs do not reflect individual income. For the purpose of estimating major employee benefits as a percent of salary, an estimated percentage cost for health insurance can be derived by comparing what is known about the employer contribution in each state to the average teacher salary. Using this method, contributions in the region range from less than 3 percent of the average teacher salary for single coverage in Tennessee to 15 percent for family coverage in West Virginia.

When considering what we know about retirement, Social Security/Medicare, and major medical contributions, it can be estimated that the cost of these benefits adds from 13 percent to nearly 31 percent to salary allocations in SREB states. It is clear that employee benefits are a significant factor in state and school budgets. For teachers, they represent a part of total compensation that goes far beyond the value of the salary alone.

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